

USA



MAY

Annual Report 1998

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The May Department Stores Company

Rib-knit tees in a
breadth of colors
and sizes – for misses,
petites, and women

Peace of Mind gum
balls for relaxing
aromatherapy



This is where

DKNY and Nine West
handbags in the season's
fashion colors



Housewares: high technology
with a time-honored chrome twist



There is at least one point in any good book or movie that grabs your attention and sticks with you. Our customers tell us that we provide a similar experience.

For holiday 1998, May launched an advertising campaign that recognizes the high level of trust our customers have in our stores. These radio and TV ads are built around the tag line "This is where it gets good," which summarizes the customers' high regard for May's track record in delivering satisfaction.



A memorable moment from our 1998 Holiday Sale commercial

it gets good

Great gift idea: whimsical perfume bottles, a May exclusive





The hooded sweater: clothes we live in and can't live without, in a selection of soft colors



Hot peepers – a quintessential style from Ralph Lauren

for *her*



Wonderbra
Dangerous Liaisons – style, color, and sizzle



Platform sandals in a strappy faille silhouette

Carolee gray faux pearls – perfect for an elegant evening or a casual weekend



Chanel lush lash
color turns heads



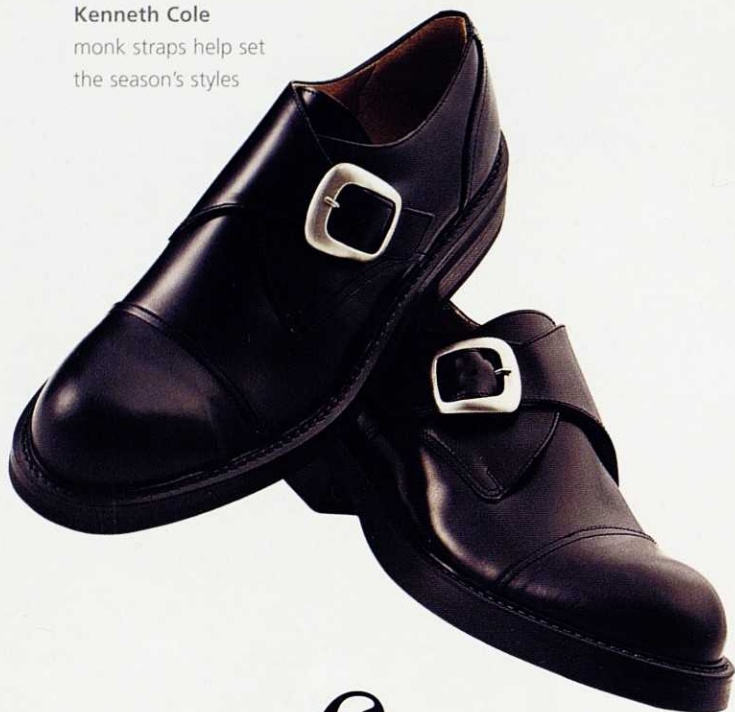
Tropical punch served
up in a sundress from
Rampage; crocheted
mesh bag by The Sak

Customers tell us that we consistently meet the challenge posed by their expectations. They give us high marks for delivering compelling assortments, sought-after brands, high-value sales events, great gift choices, convenience, one-stop shopping, friendly service, and an exciting shopping environment.

As a full-line department store for the entire family, May is committed to meeting the needs of our broad spectrum of female customers: the younger customer, the professional woman, the mother, the aging baby boomer, and the maturing customer. We begin by being fashion-right in meeting the demands of each customer type, whether for status or designer brands, comfortable everyday basics, fashionable casual wear, timeless career clothing, or exciting attire for special occasions.

May is placing a special emphasis on satisfying the lifestyle aspirations of younger customers. We are building a stronger position in juniors with resources like Tommy Jeans, Roxy, and XOXO. We are also focusing on the young, designer-conscious customer with the introduction of Ralph by Ralph Lauren along with lines from Tommy Hilfiger, Polo Jeans, Calvin Klein, and DKNY Jeans.

Kenneth Cole
monk straps help set
the season's styles



Steel, brushed or
shiny, with great
faces – big on wrists



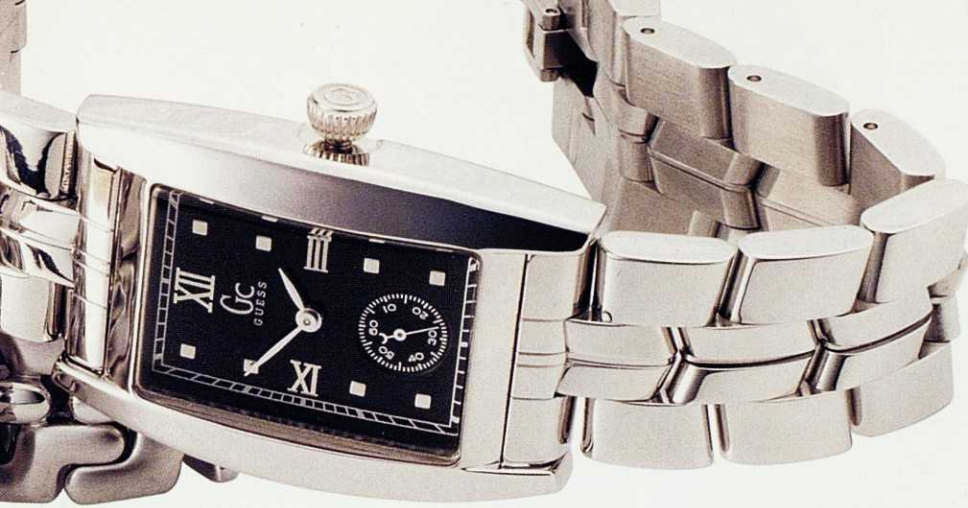
for *him*

Down jacket with
shirttail – for the young
and young at heart



Barware: martinis
served in elegant
crystal, simple glass,
or colorful plastic





Geoffrey Beene
silver essentials for
the well-dressed shirt

Fashion-rightness is equally important to male customers. In response, May has broadened its wardrobe offerings, both in modern classics from Polo, Nautica, and Hilfiger and in updated fashions from Claiborne, Perry Ellis, Jones New York, and DKNY.

May carries a full range of quality, status brands that resonate with the lifestyle desires of young male customers. Young men's resources include Quicksilver, Union Bay, and JNCO. Designer apparel offerings that appeal to young men come from Tommy Jeans, Polo Jeans, Calvin Klein, Guess, and the introduction of Nautica Jeans.

While maintaining a commitment to tailored clothing with new ideas like the three-button suit, we have responded to the trend toward comfort and casual living in all aspects of male customers' lives. We are emphasizing styles that are more relaxed and less structured. Wear-to-work casual and weekend wear holds an increasingly important position in our assortment for men.

We have also broadened our range of exciting, gift-giving options for men. Popular items such as health and leisure products, barware and accessories, handheld electronic games, watches, and personal furnishings help make us a men's gift headquarters.

Hip weekend or
relaxed business
dressing





Croskill: luxury ensembles
for the bed and bath



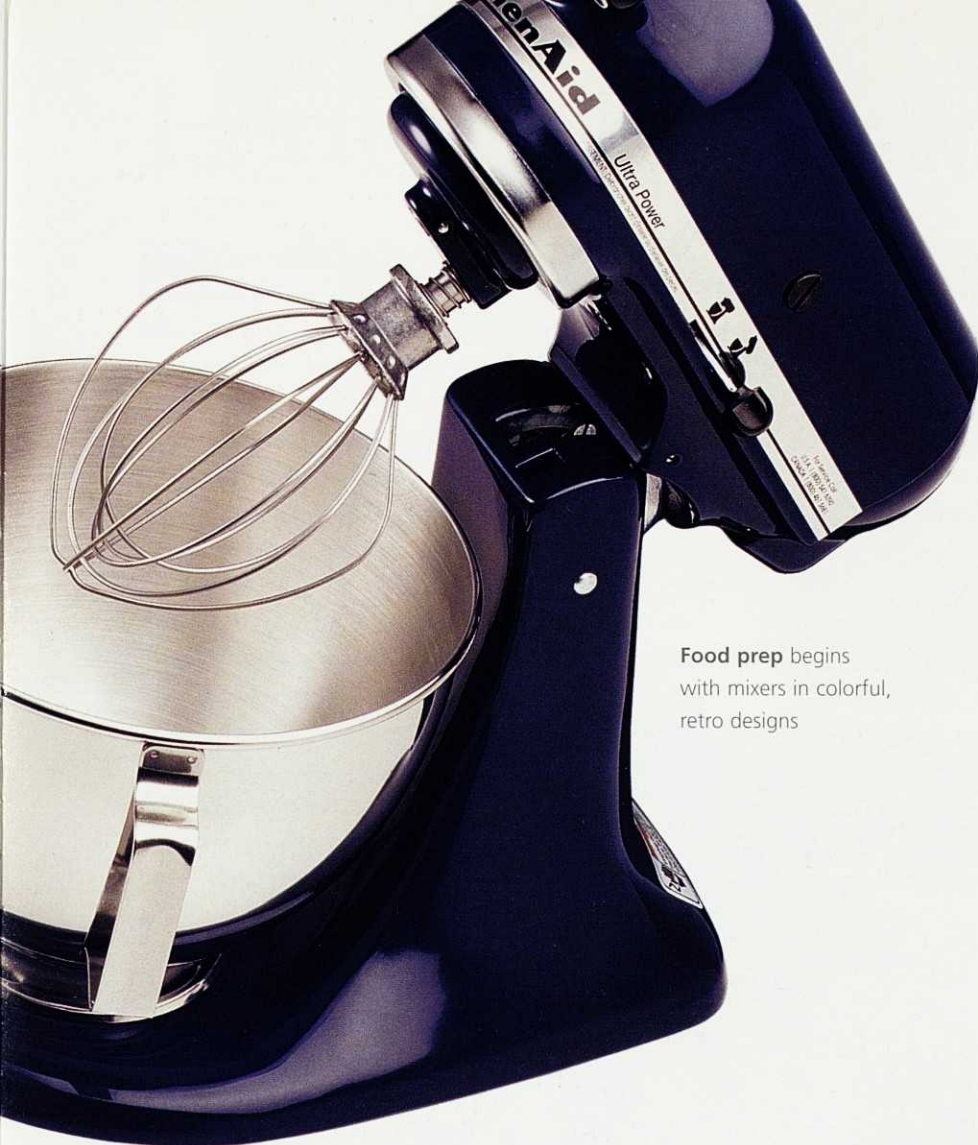
for *home*



Calphalon commercial
nonstick cookware with a
split handle that stays cool

Royal Velvet *Big 'n' Soft*
towels define the standard





Food prep begins
with mixers in colorful,
retro designs



Home fashion demands
three-wick pillars

Christopher Radko
celebrates the season
with a unique design

May's home business offers a rich array of choices for customers in all stages of their lives – from newlyweds to apartment dwellers and homeowners, to retirees. For each customer, May's home business communicates personal fashion, status, style, newness, convenience, comfort, and great gifts.

Today's customers are harried and time-starved. They want their homes as well as their lives to be interesting, exciting, and fun. We meet their aspirations with merchandise from Hilfiger, Lauren, and Croscill in home textiles; KitchenAid, Calphalon, and Fiestaware in housewares; and Lenox and Waterford in tabletop.

Although traditional home furnishings remain popular, some customers today seek products that make their lives easier and more relaxed. They prefer casual china and glassware patterns such as our recent Villeroy & Boch introduction. They have responded enthusiastically to the candle explosion.

Our assortments reflect the changing needs of aging baby boomers. Their interest in leisure, health, and travel products is reflected, for instance, in our strong selections of luggage, games, and personal care products such as magnetic, massage, aroma, and sound therapy.

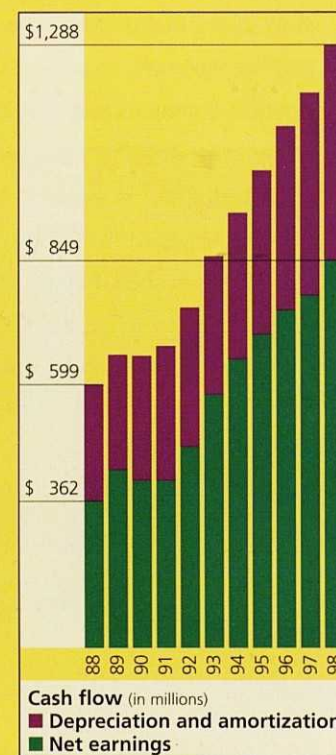
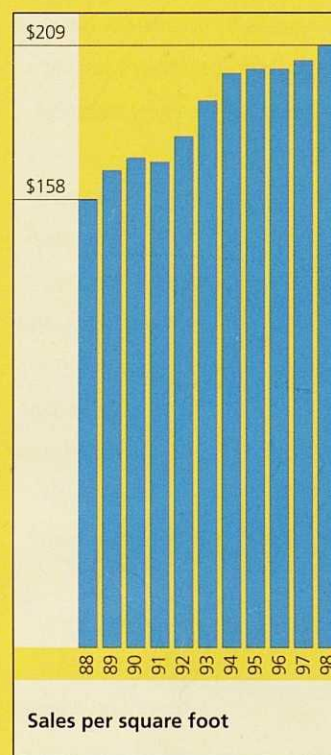
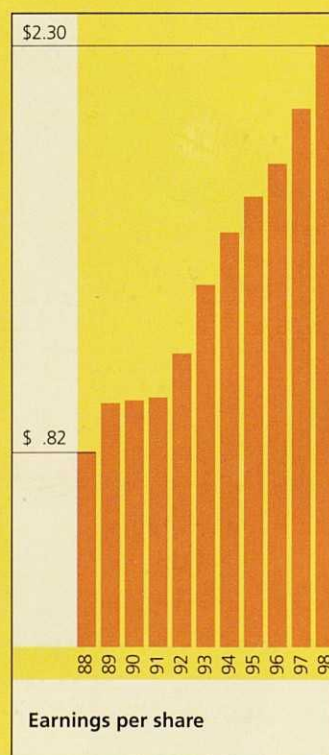
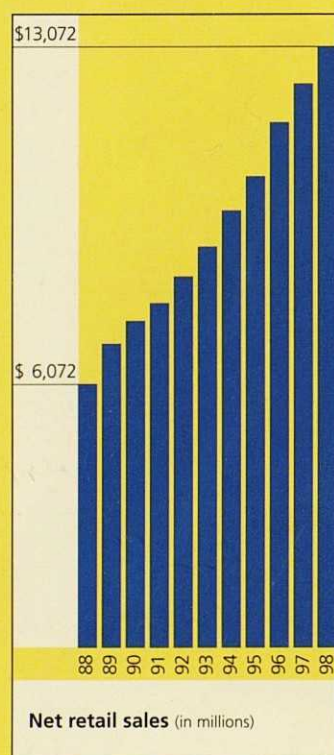


Financial Highlights

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Dollars in millions, except per share	1998	1997	Increase
Net retail sales	\$13,072	\$12,291	6.4%
Net earnings	\$ 849	\$ 779	9.1%
Diluted earnings per share	\$ 2.30	\$ 2.07	11.1%
Year-end dividend rate per common share	\$ 0.85	\$ 0.80	5.8%
Return on equity	22.2%	21.2%	
Return on net assets	19.8%	18.5%	



Letter to Shareowners

May posted record results in 1998. Sales climbed to \$13.07 billion, a 6.4% increase over 1997; same-store sales increased 3.5%. Earnings per share rose 11.1% to \$2.30, compared with \$2.07 per share a year earlier. Net earnings totaled \$849 million, versus \$779 million a year ago.

- This was May's 24th consecutive year of record sales and earnings per share, one of the most consistent performances in the retail industry.
- Our return on equity increased to 22.2%, which places May well into the top quartile of the industry.
- Cash flow grew to 9.6% of revenues, one of the highest ratios in retailing. This \$1.3 billion cash flow gives May considerable flexibility in making future investments for growth.

Adding new markets

We acted on a number of opportunities to expand the company in 1998, acquiring 13 stores during the year. The acquisitions included seven stores in the Kansas City area. They provide a substantial first-time presence in this very attractive market.

We also opened our first stores in Kentucky during 1998 with a new Lord & Taylor in Louisville, and a Famous-Barr store in Owensboro.

May opened a total of 29 new stores in 1998, including 10 acquired locations. The Kansas City area stores, operated by Famous-Barr, were reopened as The Jones Store. The Jones Store is well-regarded in its markets. We are pleased that we are operating under that name.

Looking ahead

At fiscal year-end 1998, we took a number of steps that reflect our confidence in the future.

The board of directors approved a three-for-two stock split to owners of record as of March 1 and increased the annual dividend rate 5.1% to 89 cents per share, effective with the March 15 dividend payment. This is the company's 24th consecutive annual dividend increase and marks 88 years of uninterrupted dividends.

The company announced a stock repurchase program of up to \$500 million during 1999. This is in addition to the \$1.4 billion in stock we have repurchased over the past three years, a total of 41.2 million shares.

We plan to open 18 new stores in 1999 and to remodel 29 stores, 23 of which will include expansions. These stores represent a \$500 million investment.

We are committed to strengthening our profitable home business in 1999 and beyond by reallocating most of the consumer electronics selling space to furniture, housewares, home textiles, tabletop, or gift merchandise. We expect strong growth in these areas for many years.

We also plan to invest \$75 million to improve our systems. These annual investments in systems have consistently translated into improved customer service, more efficiency in our distribution centers, and other expense savings.



May's exciting new open-sell fragrance area invites customers to explore.

Embracing new ideas

Sales growth remains our number-one priority. We can achieve this in 1999 and beyond by embracing what is new and exciting. We search vigilantly for innovations that can propel our business. Visually compelling, upbeat point-of-sale presentations that convey the strength and breadth of our merchandise assortment are key to our success.

In response to customers' feedback and demographic changes,

we began testing various open-sell environments in 1998. The open, assisted-sell environment, which eliminates the glass counter between customers and the merchandise, promotes a natural, friendly exchange between customers and associates.

We installed four open, assisted-sell fragrance shops to respond where customers' shopping preferences are shifting the most. These dynamic shops feature more than 80 designer and prestige fragrances, sorted alphabetically on accessible shelves. Customers can pick up and experiment with merchandise at their own pace.



Toast the new millennium with Waterford flutes



Gene Kahn and
Jerry Loeb



A glance away –
frames for the
special people in
your life

These fragrance shops are large – up to 1,500 square feet – and create a vibrant, exciting entrance to our stores. Customers have responded extremely well to the prototypes, which had exceptional sales growth even

compared with traditional fragrance counters. We are refining the concept and studying the results as we plan additional open-sell fragrance shops for 1999.

We also began incorporating the open, assisted-sell concept into our Estée Lauder, Clinique, and Lancôme cosmetics installations. These new formats create hands-on, experiential environments that encourage customers to test new products, try different colors, and learn about makeup techniques firsthand. They can experiment on their own, with friends, or with the help of a friendly, knowledgeable beauty adviser.

We are encouraged by our sales in these reinvented formats. The results as well as the improved service have emboldened us to expand the concept to other areas of the store. We experimented with open-sell in costume and bridge jewelry in several stores during the holiday season and plan to accelerate these installations in 1999.

Targeting younger customers

We continue to build our understanding of the nuances that drive younger and Y Generation customers. We are incorporating that understanding into our stores across all categories and businesses. These customers aspire to the lifestyles encompassed by decidedly youth-oriented brands such as Quicksilver/Roxy, Union Bay, OP, JNCO, Skechers, and Steve Madden. The Y Generation is particularly responsive to the prestige and quality reputation of brands such as Tommy Hilfiger, Polo Ralph Lauren, Calvin Klein, Nautica, and DKNY.

The new open, assisted-sell formats are proving very popular with younger consumers, as are strong, impactful presentations of key merchandising ideas and designer brands that energize the selling environment in our stores.

Branding across our stores

One of our goals is to build strong brands that have broad appeal across multiple classifications while finding ways to target younger consumers with this merchandise. Tommy Hilfiger is a resource that embodies this spirit. In 1998, he expanded his product line to include bath and body products, items for the home, sleepwear, and bedding ensembles. In 1999, Tommy is expanding his merchandise line to include makeup and color, handbags and small leather goods, and apparel for girls sizes four to 16. His new merchandise is certain to be well-received by all ages, particularly by his loyal, young customer base.

Tommy Hilfiger is not unique in creating a store-wide

brand. Other vendors, such as Polo Ralph Lauren and DKNY, are also expanding successfully into many categories across the store. They appeal to a broad spectrum of customers and respond to the growing demand for more casual attire both for work and for leisure. These add to a strong cadre of designer and prestige brands that are already well-established in our stores across many product categories. They include Jones New York, Liz Claiborne, Nine West, Perry Ellis, and Geoffrey Beene.



Customers can browse and try it themselves at our open-sell cosmetics counters.

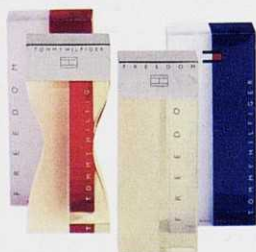
Growing our gift-giving business

May remains committed to improving our position as a gift headquarters. Our customers tell us that few gifts are as special as those from a department store. We are committed to harvesting the opportunities for gift-giving not just during the holiday season, but throughout the year. These include Valentine's Day, Easter, Mother's Day and Father's Day, Halloween, graduations, June weddings, and, of course, birthdays and anniversaries.

Customers respond to new products, new styles and colors, and new merchandising ideas that bring enjoyment such as last year's Jingle Rock Santa. May's merchandising organization is constantly searching out items and products that deliver newness for customers to give or to purchase for themselves.

We are bolstering our reputation as a gift headquarters with a new gift card that we began testing this spring. The gift card works like a debit card: Customers give it in place of a gift certificate. The recipient can use

Freedom: the
new scent from
Tommy, for her and
for him, debuts
August 1999



all or part of the gift at a variety of areas in the store over an extended period of time.

Investing in our communities

Supporting the communities where we have stores is important to May and to our associates. Donations of \$21 million from The May Department Stores Company Foundation and our associates in 1998 benefited more than 2,000 nonprofit organizations. May associates contributed \$6 million: \$5.5 million to United Way and another \$500,000 to organizations that received dollar-for-dollar matches through the May Matching Gift Program. The remaining contributions were gifts and grants from the May foundation.

We also commend our many associates who volunteered their time and talents on community projects that ranged from building homes to tutoring or acting as mentors for young people, to raising money for worthwhile medical research.

Building our board

During 1998, the May board of directors was further strengthened with the election of three new directors: Marsha J. Evans is the national executive director of Girl Scouts of the U.S.A. and a retired rear admiral in the U.S. Navy; James M. Kilts is president and chief executive officer of Nabisco, Inc.; and William D. Perez is president and chief executive officer of S.C. Johnson and Son, Inc. They bring to our board tremendous marketing and general management expertise. Shareowners will benefit greatly from their knowledge and participation.

We regret that two of our long-standing directors are retiring from the board, effective with the May 21, 1999, annual meeting. Edward H. Meyer, who is chairman of the board of directors, president, and chief executive officer of Grey Advertising Inc., joined the May board in 1979 and served as chairman of the Executive Compensation and Development Committee for 16 years. Murray L. Weidenbaum, chairman of the Center for American Business Studies and Mallinckrodt Distinguished University Professor at Washington University, has served on May's board for 20 years. His service was interrupted



when he chaired President Reagan's Council of Economic Advisors in 1981 and 1982.

Lenox Winter Greetings – the season's newest tabletop decor

Both Ed and Murray have provided outstanding counsel and valuable perspective. They have given generously of their precious time and energy to further our success. We thank them.

Saluting our associates

May has a hard-working, high-energy culture. Everyone in our company has exceedingly high standards. Nothing can match the commitment, creativity, and plain hard

work of our associates. They are the bedrock of our success this year and going forward. We are deeply appreciative. We are committed to identifying, nurturing, and rewarding the talented individuals who make this success possible.

We give a special salute to David C. Farrell, who retired in May 1998 after 41 years with the company. He led May as chief executive officer for almost 20 years and served for 24 years on the company's board of directors. During his tenure as chief

executive officer, he built May into a focused and formidable company well-positioned to serve our customers and to benefit our shareowners. Dave's legacy is a company imbued with the principles of our mission, Excellence in Retailing, a goal that continues to stretch our organization to be the best.

At May, we are never totally satisfied. We continuously raise the bar, hungry for and committed to achieving our objectives. To that end, our goal is to usher in the next millennium with our 25th year of record profitability. We are confident that we can achieve this goal and position May for continued growth and success.

Eugene S. Kahn
President and CEO

March 31, 1999

Jerome T. Loeb
Chairman of the Board



Strong, visually dynamic stores entice the consumer to shop.

Treating the Customer Right

At May, the trait we value most is friendliness. It is the basic tenet of good customer service.

We look for friendly people when we hire, we focus on friendliness in our training, and we continue to reward friendliness throughout our associates' careers. Customers can easily recognize the associates who earn our highest distinction for friendly service: They wear the company's Diamond Star on their name badges. In addition, associates with exceptional sales achievements, which go hand-in-hand with good customer service, earn membership in the prestigious President's Club. They too wear special name badges that proclaim their success.



Armanda Edgerson, Kaufmann's; Barbara Krueger, Kaufmann's; Bud Reynolds, Kaufmann's chairman; Candy Kennedy, Kaufmann's; Rick Bennet, Kaufmann's president and CEO

Kaufmann's CEO Cup winner

Kaufmann's won the 1998 CEO Cup. For the second consecutive year, it was recognized for delivering the highest level of service throughout its stores. Exceptional service

is the most important item we offer our customers. We congratulate Kaufmann's for its continuing dedication to the precept of Treating the Customer Right.

Individual Store CEO Cups

Individual stores are recognized each year for outstanding customer service and contributions to sales. The figures represent the number of times the store has won the CEO Cup.

Lord & Taylor

Livingston – 2
Woodfield Mall – 1
Westfarms Mall – 1
Northbrook Court – 1
Carousel – 2

Hecht's

Lynnhaven – 4
Washington, D.C.,
Metro Center – 1
St. Charles Towne Center – 3
Greenbrier Mall – 1
Centre at Salisbury – 4
Francis Scott Key Mall – 2
West Manchester Mall – 2

Foley's

Town East – 2
The Woodlands – 2
Downtown Houston – 4
Ingram Park Mall – 1
Crossroads – 2
Temple Mall – 1

Robinsons-May

Lakewood Center – 1
Mission Valley Center – 1
Arrowhead Towne Center – 1
Beverly Hills – 1

Filene's

Warwick Mall – 1
Belmont Center – 2
Square One Mall – 1
Hanover Mall – 4

Kaufmann's

Beaver Valley Mall – 2
Chapel Hill Shopping Center – 3
Millcreek Mall – 1
Logan Valley Mall – 2

Famous-Barr

Carbondale – 3



Rachel Williams, Foley's
Harriet Methvin, Foley's
Cookie Fletcher, Meier & Frank
Connie Hernandez, Robinsons-May
Howard Hershaft, Lord & Taylor



Jenny Lamberty, Lord & Taylor
Lydy Phlong, Robinsons-May
Gale Cifelli, Filene's
Harvey Hasson, Meier & Frank
Jackie Gunn, Hecht's
Agnes O'Gorman, Lord & Taylor



Bud Dadani, Foley's
Sadie Billings, Foley's
Pearl Kuehl, Lord & Taylor
Yumiko Bryant, Filene's
Helen Graham, Famous-Barr

Representing more than 23,000 Diamond Star winners



Judy Quinn, Robinsons-May
Jeff Curtner, Famous-Barr
Kim Burnett, Foley's
Ayo Hickson, Kaufmann's
Shirley Burgess, Filene's



Judy Wexler, Filene's
Cynthia Vecchio, Kaufmann's
Ron Melançon, Hecht's
Williene Trapp, Hecht's
Razia Noormahomed, Foley's
Lilo Rankin, Robinsons-May



Barb Taylor, L.S. Ayres
Stuart Cotler, Filene's
Joan Tyburczy, Foley's
Margaret Pinckney, Lord & Taylor
Lee Holland, Lord & Taylor

and 13,000 President's Club members



Laurie Dennis, Lord & Taylor
Jeanne Graniero, Hecht's
Carole Kyle, Robinsons-May
Don Jonas, Kaufmann's
Kim Peters, Hecht's



Jean Tuckman, Strawbridge's
Helen Chee, Foley's
Monika Carr, Foley's
Al Johnson, Filene's
Dolores Belaski, Lord & Taylor

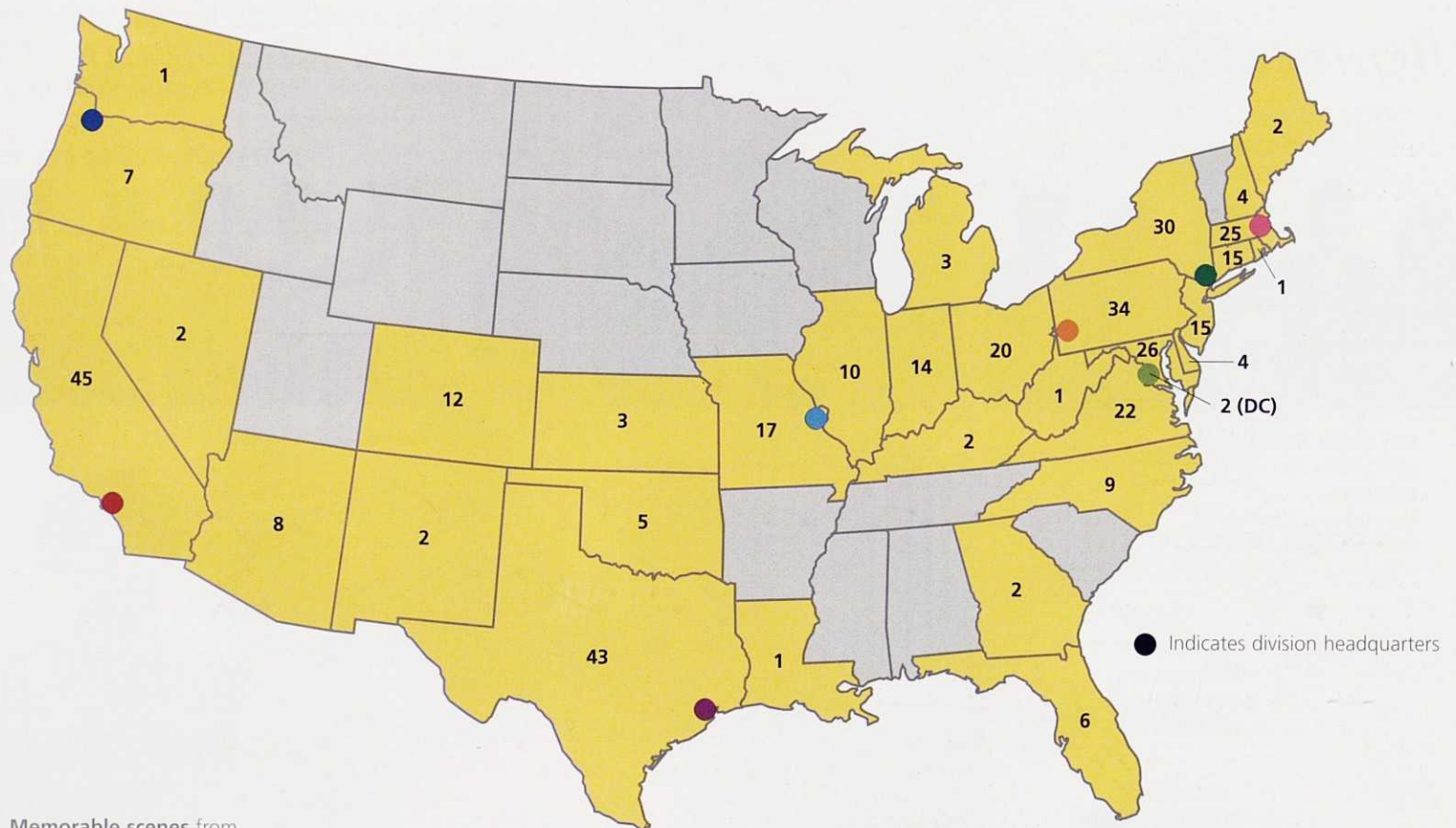


Tillie Borges, Foley's
Rick Proulx, Hecht's
Patricia Mead, Robinsons-May
Lou King, Strawbridge's
Carole Fredericks, The Jones Store

MAY
at a glance



Our quality stores serve nearly 150 million customers and hold a leading position in 113 markets.



Memorable scenes from
our new companywide
advertising campaign





Market Information	Stores	1998 Sales
● Lord & Taylor 29 markets, including New York/New Jersey Metro, Chicago, Boston, Washington DC, Detroit, Houston, Atlanta, Dallas, and Miami	73	\$ 2.0 billion
● Hecht's and Strawbridge's 18 markets, including Washington DC Metro, Philadelphia (Strawbridge's), Baltimore, Norfolk, and Richmond	71	\$ 2.4 billion
● Foley's 17 markets, including Houston, Dallas/Fort Worth, Denver, San Antonio, Austin, and Oklahoma City	57	\$ 2.1 billion
● Robinsons-May 9 markets, including Los Angeles/Orange County, Riverside/San Bernardino, Phoenix, San Diego, and Anaheim	55	\$ 1.9 billion
● Filene's 15 markets, including Boston Metro, Southern Connecticut, Hartford, Providence, and Albany	42	\$ 1.6 billion
● Kaufmann's 20 markets, including Pittsburgh, Cleveland, Buffalo, Rochester, Syracuse, and Akron	48	\$ 1.5 billion
● Famous-Barr, L.S. Ayres, and The Jones Store 20 markets, including St. Louis, Kansas City (The Jones Store), Indianapolis (L.S. Ayres), Fort Wayne, and South Bend	39	\$ 1.2 billion
● Meier & Frank 4 markets: Portland/Vancouver, Salem, Eugene, and Medford	8	\$ 0.4 billion
The May Department Stores Company	393	\$13.1 billion

Management's Discussion and Analysis

Our 24th consecutive year of record sales and earnings per share positions May as one of the most consistent companies in the retail industry. Our five-year earnings per share compound growth rate of 10.0% and our 22.2% return on equity are among the industry's best.

Sales were \$13.1 billion, an increase of 6.4% over 1997 sales of \$12.3 billion. The increase reflects a 3.5% rise in store-for-store sales, 1998 store openings, and the full-year impact of 1997 store openings. Store-for-store sales increases for the first through fourth quarters in 1998 were 4.6%, 4.3%, 2.2%, and 3.3%, respectively.

Our 1998 diluted earnings per share increased 11.1% to \$2.30 from last year's \$2.07. Net earnings totaled \$849 million, compared with \$779 million last year. Return on beginning equity increased to 22.2% from 21.2% in 1997, and return on net assets was 19.8%, compared with 18.5% in 1997.

During 1998, the company purchased 11 former Mercantile stores. Ten of these stores were in operation at fiscal year-end 1998. The remaining store was closed for remodeling and will reopen in fall 1999. We acquired two additional stores which will open in 1999.

We opened 29 department stores as detailed below during 1998, including the 10 former Mercantile stores, adding 4.6 million square feet of retail space:

Lord & Taylor: 10 stores				Filene's: 2 stores			
NY	Palisades Ctr.	West Nyack		NY	Palisades Ctr.	West Nyack	
	South Shore	Bayshore		MA	Bangor Mall	Bangor	
	Walt Whitman	Long Island		Kaufmann's: 2 stores			
MD	Owings Mill	Baltimore		PA	Robinson Town Ctr.	Pittsburgh	
	White Marsh	Baltimore		OH	Richmond Town Sq.	Cleveland	
	Annapolis Mall	Annapolis		Famous-Barr: 9 stores			
	The Mall	Columbia		<i>Operating as The Jones Store:</i>			
VA	Dulles Town Ctr.	Reston		MO	Metro North	Kansas City	
TX	Willowbrook	Houston			Bannister	Kansas City	
KY	St. Matthews	Louisville			Blue Ridge	Kansas City	
Hecht's: 3 stores					Independence	Independence	
VA	Patrick Henry	Newport News		KS	Metcalfe South	Overland Park	
	Lynnhaven	Virginia Beach			West Ridge	Topeka	
	Dulles Town Ctr.	Reston			Prairie Village Ctr.	Prairie Village	
Foley's: 2 stores				<i>Operating as Famous-Barr:</i>			
CO	Chapel Hill	Colorado Springs		KY	Towne Sq.	Owensboro	
TX	Ridgmar Mall	Ft. Worth		<i>Operating as L.S. Ayres:</i>			
Robinsons-May: 1 store				IN	Honey Creek Sq.	Terre Haute	
CA	Inland Ctr.	San Bernardino					

In addition, we remodeled 19 department stores in 1998, totaling 1.5 million retail square feet, which included the expansion of five stores by 164,000 square feet. At fiscal year-end, May operated 393 department stores in 32 states and the District of Columbia.

Our expansion program for 1999 includes 18 new department stores, totaling 2.5 million square feet of retail space. In addition, the company plans to remodel 29 department stores totaling

1.5 million square feet of retail space, which includes the expansion of 23 stores by a total of 734,000 square feet. We also plan to continue the aggressive pursuit of home store sales by converting space previously dedicated to consumer electronics. We plan to complete conversion of this space in 190 stores in 1999 and 70 stores in 2000.

The new-store plan for 1999 through 2003 would add 78 new department stores totaling 12 million retail square feet, a 3% annualized increase, net of closings. During this five-year period, May plans to invest \$1.5 billion for new stores, \$800 million to expand and remodel existing stores, and \$360 million related to systems and operations. These are the major components of our \$3.4 billion capital plan.

During 1998, the company completed a \$500 million stock repurchase program totaling 12.5 million shares. The 1998 buy-back was in addition to a \$300 million 1997 stock repurchase program totaling 9.6 million shares and a \$600 million 1996 stock repurchase program totaling 19.1 million shares. In February 1999, the company announced plans to repurchase up to an additional \$500 million of May shares.

Review of Operations

Diluted earnings per share reached \$2.30 in 1998, compared with \$2.07 in 1997 and \$1.87 in 1996. Net earnings totaled \$849 million in 1998, compared with \$779 million in 1997 and \$749 million in 1996. The 1998 and 1997 diluted earnings per share growth rates were 11.1% and 10.7%, respectively. Net earnings growth rates were lower than diluted earnings per share growth rates due to \$1.4 billion of stock repurchases completed in 1998, 1997, and 1996. Return on revenues was 6.3% in 1998, compared with 6.1% in 1997 and 6.2% in 1996.

Results for the past three years on a continuing operations basis and the related percent of revenues were as follows:

	1998		1997		1996	
	\$	%	\$	%	\$	%
(dollars in millions, except per share data)						
Net retail sales	\$13,072		\$12,291		\$11,492	
Revenues	\$13,413	100.0%	\$12,685	100.0%	\$12,000	100.0%
Cost of sales	9,224	68.8	8,732	68.8	8,226	68.5
Selling, general, and administrative expenses	2,516	18.7	2,375	18.7	2,265	18.9
Interest expense, net	278	2.1	299	2.4	277	2.3
Earnings before income taxes	1,395	10.4	1,279	10.1	1,232	10.3
Provision for income taxes*	546	39.1	500	39.1	483	39.3
Net earnings	\$ 849	6.3%	\$ 779	6.1%	\$ 749	6.2%
Diluted earnings per share**	\$ 2.30		\$ 2.07		\$ 1.87	

* Percent of revenues columns represent effective income tax rates.

** Reflects three-for-two common stock split effective March 22, 1999.

LIFO (last-in, first-out) was a credit of \$28 million, \$5 million, and \$20 million in 1998, 1997, and 1996, respectively. The impact of LIFO on cost of sales, as a percent of revenues, is shown below:

	1998	1997	1996
Cost of sales	68.8%	68.8%	68.5%
LIFO credit	(0.2)	(0.1)	(0.2)
Cost of sales before LIFO credit	69.0%	68.9%	68.7%

Earnings before interest and taxes excluding the LIFO credit for the past three years were as follows:

	1998	1997	1996	Increase	
(dollars in millions)				1998	1997
Operating earnings	\$1,645	\$1,573	\$1,489	4.6%	5.7%
Percent of revenues	12.3%	12.4%	12.4%		

The slight decline in operating earnings as a percentage of revenues was due to lower gross margins resulting from higher markdown levels.

May's 393 quality department stores are operated by eight regional department store companies across the United States under 11 long-standing and widely recognized trade names. Each store company holds a leading market position in its region.

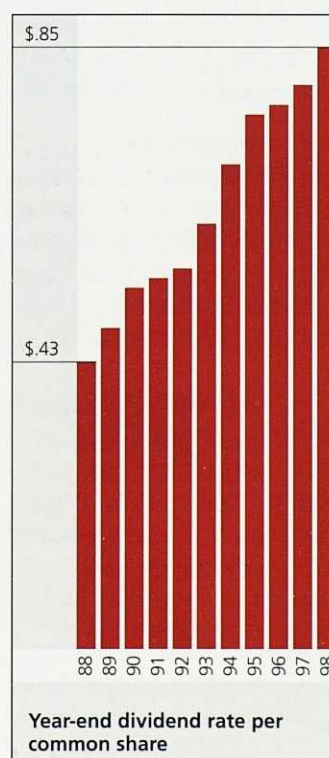
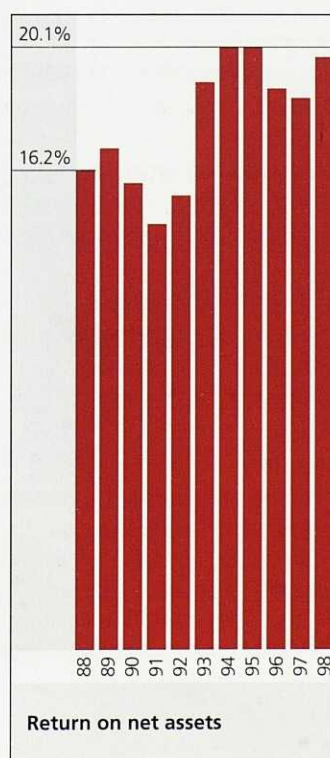
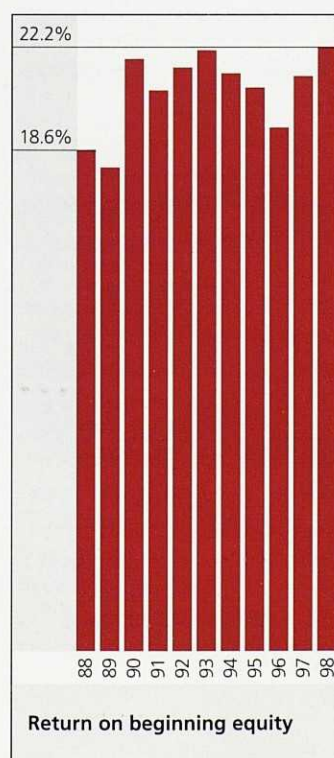
The table below summarizes net retail sales, sales per square foot, gross retail square footage, and number of stores for each store company:

Store Company: Headquarters	Net Retail Sales in Millions of Dollars		Sales per Square Foot		Gross Retail Square Footage in Thousands		Number of Stores			
	1998	1997	1998	1997	1998	1997	1998	New	Closed	1997
Lord & Taylor: New York City	\$ 1,976	\$ 1,875	\$232	\$243	9,461	8,208	73	10	—	63
Hecht's, Strawbridge's: Washington, D.C.	2,368	2,285	200	195	12,231	12,318	71	3	3	71
Foley's: Houston	2,060	1,888	196	186	10,993	10,647	57	2	—	55
Robinsons-May: Los Angeles	1,936	1,849	196	189	10,156	10,140	55	1	1	55
Filene's: Boston	1,578	1,450	244	236	6,710	6,394	42	2	—	40
Kaufmann's: Pittsburgh	1,549	1,489	199	193	8,177	7,961	48	2	1	47
Famous-Barr, L.S. Ayres, The Jones Store: St. Louis	1,206	1,060	207	202	7,159	5,408	39	9	—	30
Meier & Frank: Portland, Ore.	399	395	231	229	1,768	1,768	8	—	—	8
The May Department Stores Company	\$13,072	\$12,291	\$209	\$204	66,655	62,844	393	29	5	369

Net retail sales represent sales of stores open at the end of 1998.

Sales per square foot are calculated from revenues and average gross retail square footage.

Gross retail square footage represents square footage of stores open at the end of the period presented.



Management's Discussion and Analysis (continued)

Net Retail Sales

Net retail sales (see page 25 for definition) increases for 1998 and 1997 were as follows:

1998 vs. 1997		1997 vs. 1996		Five-year Compound Growth Rate
Total	Store-for-Store	Total	Store-for-Store	
6.4%	3.5%	7.0%	3.6%	7.9%

The total sales increase for 1998 reflects a 3.5% rise in store-for-store sales, the opening of 24 net new stores in 1998, and the full-year impact of 1997 store openings. The total sales increase for 1997 includes a 3.6% store-for-store sales increase, the opening of four net new stores, and the full-year impact of 1996 store openings.

Sales include leased and licensed department sales of \$385 million, \$353 million, and \$326 million in 1998, 1997, and 1996, respectively. Revenues include finance charge revenues of \$298 million, \$319 million, and \$338 million in 1998, 1997, and 1996, respectively. Finance charge revenues have decreased due to increased use of third-party credit cards and corresponding decreased use of the company's proprietary credit cards.

Cost of Sales

Cost of sales includes cost of merchandise sold and buying and occupancy costs. Cost of sales was \$9.22 billion in 1998, compared with \$8.73 billion in 1997, a 5.6% increase. The overall increase resulted from a 6.4% increase in sales. As a percent of revenues, cost of sales remained constant between 1997 and 1998 at 68.8%. Excluding the LIFO credit, cost of sales increased to 69.0% in 1998, compared with 68.9% in 1997. This increase was primarily the result of higher promotional markdown levels.

Cost of sales was \$8.73 billion in 1997, compared with \$8.23 billion in 1996, a 6.2% increase. The overall increase resulted from a 7.0% increase in sales. As a percent of revenues, cost of sales increased 0.3% from 68.5% in 1996 to 68.8% in 1997. This increase was due to higher promotional activity and a lower LIFO credit in 1997. Excluding the LIFO credit, cost of sales increased to 68.9% in 1997, compared with 68.7% in 1996.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were \$2.52 billion in 1998, compared with \$2.38 billion in 1997, a 5.9% increase. The overall increase was due to a 6.4% increase in sales. As a percent of revenues, selling, general, and administrative expenses remained constant at 18.7% in 1998, compared with 1997. A decrease in credit expense, partly related to lower bankruptcy rates, was offset by increases in advertising, retirement, and profit-sharing expense.

Selling, general, and administrative expenses were \$2.38 billion in 1997, compared with \$2.27 billion in 1996, a 4.8% increase. The overall increase was due to a 7.0% increase in sales. As a percent of revenues, selling, general, and administrative expenses decreased 0.2% to 18.7% in 1997, compared with 18.9% in 1996, due to a decrease in credit expense that was partially offset by higher payroll costs.

Selling, general, and administrative expenses include advertising and sales promotion costs of \$500 million, \$463 million, and \$439 million in 1998, 1997, and 1996, respectively.

Interest Expense

Interest expense components were:

(dollars in millions)	1998	1997	1996
Interest expense	\$311	\$324	\$310
Interest income	(19)	(11)	(16)
Capitalized interest	(14)	(14)	(17)
Interest expense, net	\$278	\$299	\$277
Percent of revenues	2.1%	2.4%	2.3%

The decrease in 1998 net interest expense compared with 1997 was due to both lower average long-term debt balances and higher average cash equivalent balances.

The increase in 1997 net interest expense compared with 1996 was due to increased average long-term debt balances related to borrowings to finance the company's 1996 common stock repurchases and debt assumed in the Strawbridge & Clothier transaction.

Income Taxes

The effective income tax rates were 39.1%, 39.1%, and 39.3% in 1998, 1997, and 1996, respectively.

Discontinued Operation

Effective May 4, 1996, the company spun off Payless ShoeSource, Inc. (Payless) as a tax-free distribution to shareowners.

Extraordinary Items

The company recorded an aftertax loss of \$4 million (\$5 million pretax) in 1997 and \$5 million (\$8 million pretax) in 1996 related to the early retirement of debt.

Impact of Inflation

Inflation did not have a material impact on the company's 1998 sales growth and earnings. The company values its inventory on a LIFO basis, and as a result, the current cost of merchandise is reflected in current operating results.

Review of Financial Condition

We continue to meet our objective of generating superior shareowner returns while maintaining access to capital at reasonable costs.

Return on Equity

Return on equity is our principal measure for evaluating our performance for shareowners and our ability to invest shareowners' funds profitably. Our objective is performance that places our return on equity in the top quartile of the retail industry. Return on beginning equity was 22.2% in 1998, compared with 21.2% in 1997 and 19.4% in 1996. Both years' increases resulted from net earnings growth and stock repurchases in the prior year.

Return on Net Assets

Return on net assets measures performance independent of capital structure. Return on net assets represents pretax earnings before net interest expense and the interest component of operating leases, divided by beginning of year net assets (including present value of operating leases). Return on net assets was 19.8% in 1998, compared with 18.5% in 1997 and 18.8% in 1996.

Cash Flow

Cash flow from operations (net earnings plus depreciation/amortization) was \$1.3 billion, or 9.6% of revenues in 1998. This compares with 9.4% in 1997 and 9.3% in 1996. The company's cash flow as a percent of revenues continues to be one of the highest in the retail industry, and provides the company with significant resources to enhance shareowners' value.

Sources (uses) of cash flows are summarized below:

(dollars in millions)	1998	1997	1996
Net earnings and depreciation/amortization	\$1,288	\$1,191	\$1,123
Working capital decreases	158	265	142
Discontinued operation	—	—	(13)
Other operating activities	59	70	7
Capital expenditures and other investing activities	(888)	(463)	(603)
Net long-term debt issuances (repayments)	129	(340)	412
Net purchases of common stock	(525)	(329)	(820)
Dividend payments	(308)	(297)	(305)
Increase (decrease) in cash and cash equivalents	\$ (87)	\$ 97	\$ (57)

See "Consolidated Statement of Cash Flows" on page 23.

Financing Activities

During the third quarter of 1998, May issued \$350 million in new debt: \$200 million of 6.70% debentures due September 15, 2028, and \$150 million of 5.95% notes due November 1, 2008. The proceeds from the issuances were added to the company's

general funds and were used primarily for repayment of a portion of May's short-term indebtedness, capital expenditures, store acquisitions, and stock repurchases. Commercial paper borrowings were made to fund seasonal working capital requirements. In 1997, the company did not issue any long-term debt.

Available Credit

The company has \$767 million of available borrowing under its multiyear credit agreements, including a minority-owned bank facility. In addition, the company has filed with the Securities and Exchange Commission shelf registration statements that would enable it to issue up to \$1.0 billion of additional debt securities.

Financial Condition Ratios

Our debt-to-capitalization and fixed-charge coverage ratios are consistent with our capital structure objective. They provide us with substantial financial flexibility.

The debt-to-capitalization ratios were 45%, 44%, and 48% for 1998, 1997, and 1996, respectively. For purposes of the debt-to-capitalization ratio, total debt is defined as short-term and long-term debt (including the Employee Stock Ownership Plan (ESOP) debt reduced by unearned compensation), and the capitalized value of all leases, including operating leases. Capitalization is defined as total debt, noncurrent deferred taxes, ESOP preference shares, and shareowners' equity. See "Profit Sharing" on page 26 for discussion of the ESOP.

The fixed-charge coverage ratios were 4.5x in 1998 and 4.1x in 1997 and 1996. Fixed charges are defined as gross interest expense, interest expense on the ESOP debt, total rent expense, and the pretax equivalent of dividends on redeemable preferred stock.

Debt Ratings

In November 1998, May's bond rating by Moody's Investors Service, Inc. was increased from A2 to A1. Our bonds continue to be rated A by Standard & Poor's Corporation. Our commercial paper is rated P1 by Moody's and A1 by Standard & Poor's. May's senior unsecured bank credit agreement was assigned an A1 rating by Moody's.

Capital Expenditures

Our strong financial condition enables us to make capital expenditures to enhance shareowners' returns. Return on net assets, internal rate of return, and sales per square foot are emphasized as the principal operating measures as we invest in new stores, remodel existing stores, and eliminate unproductive space.

The 1999 capital expenditure plan approximates \$700 million. Capital expenditures for the period 1999 through 2003 are planned at \$3.4 billion.

Management's Discussion and Analysis (continued)

Common Stock Dividends and Market Prices

Subsequent to year-end, the board of directors approved a three-for-two common stock split for distribution on March 22, 1999, equivalent to one share of common stock for each two shares of common stock held by shareowners of record on March 1, 1999. All share and per share data included in this annual report have been restated to reflect the stock split.

Our dividend policy is based on earnings growth and capital investment requirements. Our objective is to increase dividends on common stock as we achieve earnings growth. The company increased the 1999 annual dividend rate by 5.1%, or 4 1/3 cents per share, to 89 cents per share. This is our 24th consecutive annual dividend increase. The new annual dividend rate of 89 cents per share was effective with the March 1999 dividend payment. Dividends paid have increased at a compound rate of 7.2% during the past five years. The company has paid consecutive quarterly dividends since 1911.

The quarterly price ranges of the common stock and dividends per share in 1998 and 1997 were:

Quarter	1998			1997		
	Market Price		Dividends per Share	Market Price		Dividends per Share
	High	Low		High	Low	
First	\$44 5/16	\$35 5/16	\$.21 1/8	\$33 3/16	\$29 1/16	\$.20
Second	47 1/4	41 1/16	.21 1/8	37 15/16	30 3/16	.20
Third	44 11/16	33 3/16	.21 1/8	38 1/16	33 13/16	.20
Fourth	43	37 7/16	.21 1/8	37 13/16	33 1/4	.20
Year	\$47 1/4	\$33 3/16	\$.84 3/4	\$38 1/16	\$29 1/16	\$.80

The approximate number of common shareowners as of March 1, 1999, was 46,000.

Forward-looking Statements

Management's Discussion and Analysis contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. While such statements reflect all available information and management's judgment and estimates of current and anticipated conditions and circumstances, prepared with the assistance of specialists within and outside the company, many factors outside of May's control exist that have an impact on its operations. Such factors include, but are not limited to: competitive changes; general and regional economic conditions; consumer preferences and spending patterns; availability of adequate locations for building or acquiring new stores; ability to hire and retain qualified associates; possible widespread inability to perform due to year 2000 issues by merchandise vendors, public utilities, telecommunications providers, and financial institutions; and the general economic impact of the year 2000 issues. Because of these factors, actual performance could differ materially from that described in the forward-looking statements.

Year 2000 Readiness

In 1996, May began assessing and preparing its critical information systems, communications networks, equipment, and facilities for the year 2000. As of the end of fiscal 1998, May completed this assessment and substantially completed the coding, testing, and installation of necessary modifications. May will test certain interfaces with some merchandise and service vendors for year 2000 compliance through the spring of 1999. Since May is substantially complete with its modifications, the company does not expect any material disruption of business. Through participation in a National Retail Federation sponsored survey and other means, May is receiving assurances from its primary merchandise vendors and service providers regarding their year 2000 readiness.

May developed and maintains most of its application systems internally. Over the past 12 months, May used approximately 15% of its information systems resources to address company-wide year 2000 issues. May's use of outside consultants and contractors to address year 2000 compliance has not been significant. Through fiscal 1998, the cumulative cost of the company's year 2000 effort approximates \$6 million, which May expensed as incurred.

Under the most reasonably likely worst case scenario, May does not anticipate more than isolated, temporary disruptions of its operations caused by year 2000 failures affecting either the company or its primary merchandise and service vendors. May expects that its technically trained personnel, working in cooperation with key vendors and service providers, should be able to address year 2000 system issues that may arise. To the extent May's vendors are unable to deliver products and provide services due to their own year 2000 issues, May believes it will generally have alternative sources for comparable products and services and does not expect to experience any material business disruptions. Many risks, however, such as the failure to perform by public utilities, telecommunications providers, and financial institutions, and the impact of the year 2000 issue on the economy as a whole, are outside May's control and could adversely affect the company and its ability to conduct business. While May has made a significant effort to address all anticipated risks within its control, this is an event without precedent; consequently, there can be no assurance that the year 2000 issue will not have a material adverse impact on May's financial condition, operating results, or business.

Consolidated Statement of Earnings

(dollars in millions, except per share)	1998	1997	1996
Net retail sales	\$13,072	\$12,291	\$11,492
Revenues	\$13,413	\$12,685	\$12,000
Cost of sales	9,224	8,732	8,226
Selling, general, and administrative expenses	2,516	2,375	2,265
Interest expense, net	278	299	277
Total cost of sales and expenses	12,018	11,406	10,768
Earnings from continuing operations before income taxes	1,395	1,279	1,232
Provision for income taxes	546	500	483
Net earnings from continuing operations	849	779	749
Net earnings from discontinued operation	—	—	11
Net earnings before extraordinary loss	849	779	760
Extraordinary loss related to early extinguishment of debt, net of income taxes	—	(4)	(5)
Net earnings	\$ 849	\$ 775	\$ 755
Basic earnings per share:			
Continuing operations	\$ 2.43	\$ 2.18	\$ 1.97
Discontinued operation	—	—	0.03
Net earnings before extraordinary loss	2.43	2.18	2.00
Extraordinary loss	—	(0.01)	(0.01)
Basic earnings per share	\$ 2.43	\$ 2.17	\$ 1.99
Diluted earnings per share:			
Continuing operations	\$ 2.30	\$ 2.07	\$ 1.87
Discontinued operation	—	—	0.03
Net earnings before extraordinary loss	2.30	2.07	1.90
Extraordinary loss	—	(0.01)	(0.01)
Diluted earnings per share	\$ 2.30	\$ 2.06	\$ 1.89

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

(dollars in millions, except per share)	January 30, 1999	January 31, 1998
Assets		
Current assets:		
Cash	\$ 15	\$ 14
Cash equivalents	97	185
Accounts receivable, net	2,144	2,164
Merchandise inventories, net of LIFO reserves of \$65 and \$93	2,655	2,433
Other current assets	76	82
Total current assets	4,987	4,878
Property and equipment:		
Land	316	304
Buildings and improvements	3,581	3,393
Furniture, fixtures, and equipment	3,232	3,028
Property under capital leases	131	62
Total property and equipment	7,260	6,787
Accumulated depreciation	(2,747)	(2,563)
Property and equipment, net	4,513	4,224
Goodwill, net of accumulated amortization of \$199 and \$174	933	752
Other assets	100	76
Total assets	\$10,533	\$ 9,930
Liabilities and shareowners' equity		
Current liabilities:		
Current maturities of long-term debt	\$ 98	\$ 233
Accounts payable	1,017	842
Accrued expenses	755	640
Income taxes payable	189	151
Total current liabilities	2,059	1,866
Long-term debt	3,825	3,512
Deferred income taxes	482	449
Other liabilities	309	277
ESOP preference shares	327	337
Unearned compensation	(305)	(320)
Shareowners' equity:		
Common stock	167	173
Additional paid-in capital	—	—
Retained earnings	3,669	3,636
Total shareowners' equity	3,836	3,809
Total liabilities and shareowners' equity	\$10,533	\$ 9,930

Common stock has a par value of \$.50 per share; 700 million shares are authorized and 470.5 million shares were issued. At January 30, 1999, 334.7 million shares were outstanding, and 135.8 million shares were held in treasury. At January 31, 1998, 346.5 million shares were outstanding, and 124.0 million shares were held in treasury.

ESOP preference shares have a par value of \$.50 per share and a stated value of \$507 per share; 800,000 shares are authorized. At January 30, 1999, 645,320 shares (convertible into 21.8 million shares of common stock) were issued and outstanding. At January 31, 1998, 665,866 shares (convertible into 22.5 million shares of common stock) were issued and outstanding.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(dollars in millions)	1998	1997	1996
Operating activities:			
Net earnings	\$ 849	\$ 775	\$ 755
Adjustments for noncash items included in earnings:			
Depreciation and amortization	439	412	374
Deferred income taxes	48	58	45
Deferred and unearned compensation	5	8	10
Working capital changes*	158	265	142
Other assets and liabilities, net	6	8	(43)
Total operating activities	1,505	1,526	1,283
Investing activities:			
Capital expenditures	(630)	(496)	(632)
Dispositions of property and equipment	44	33	29
Acquisition	(302)	—	—
Cash used in discontinued operation	—	—	(24)
Total investing activities	(888)	(463)	(627)
Financing activities:			
Issuances of long-term debt	350	—	800
Repayments of long-term debt	(221)	(340)	(388)
Purchases of common stock	(589)	(394)	(869)
Issuances of common stock	64	65	49
Dividend payments	(308)	(297)	(305)
Total financing activities	(704)	(966)	(713)
Increase (decrease) in cash and cash equivalents	(87)	97	(57)
Cash and cash equivalents, beginning of year	199	102	159
Cash and cash equivalents, end of year	\$ 112	\$ 199	\$ 102
*Working capital changes comprise:			
Accounts receivable, net	\$ 20	\$ 262	\$ 139
Merchandise inventories	(176)	(53)	(211)
Other current assets	12	46	45
Accounts payable	176	(30)	180
Accrued expenses	89	26	(20)
Income taxes payable	37	14	9
Net decrease in working capital	\$ 158	\$ 265	\$ 142
Cash paid during the year:			
Interest	\$ 297	\$ 319	\$ 288
Income taxes	411	355	380

See Notes to Consolidated Financial Statements.

Consolidated Statement of Shareowners' Equity

(dollars in millions, shares in thousands)	Shares	Outstanding Common Stock Dollars	Additional Paid-in Capital	Retained Earnings	Total Shareowners' Equity
Balance at February 3, 1996	373,307	\$187	\$ —	\$4,398	\$4,585
Net earnings	—	—	—	755	755
Dividends paid:					
Common stock (\$0.77 per share)	—	—	—	(287)	(287)
ESOP preference shares, net of tax benefit	—	—	—	(18)	(18)
Common stock issued	9,968	5	256	—	261
Common stock purchased	(27,886)	(14)	(256)	(599)	(869)
Distribution of equity in Payless ShoeSource, Inc.	—	—	—	(777)	(777)
Balance at February 1, 1997	355,389	178	—	3,472	3,650
Net earnings	—	—	—	775	775
Dividends paid:					
Common stock (\$0.80 per share)	—	—	—	(279)	(279)
ESOP preference shares, net of tax benefit	—	—	—	(18)	(18)
Common stock issued	3,419	2	73	—	75
Common stock purchased	(12,296)	(7)	(73)	(314)	(394)
Balance at January 31, 1998	346,512	173	—	3,636	3,809
Net earnings	—	—	—	849	849
Dividends paid:					
Common stock (\$0.84 $\frac{2}{3}$ per share)	—	—	—	(290)	(290)
ESOP preference shares, net of tax benefit	—	—	—	(18)	(18)
Common stock issued	3,141	1	74	—	75
Common stock purchased	(14,989)	(7)	(74)	(508)	(589)
Balance at January 30, 1999	334,664	\$167	\$ —	\$3,669	\$3,836

Outstanding common stock excludes shares held in treasury. Treasury share activity for the last three years is summarized below:

	1998	1997	1996
Balance, beginning of year	123,943	115,066	97,148
Common stock issued:			
Exercise of stock options	(1,914)	(2,372)	(1,495)
Deferred compensation plan	(227)	(243)	(225)
Restricted stock grants, net of forfeitures	(306)	(156)	(368)
Conversion of ESOP preference shares	(694)	(648)	(1,194)
Acquisitions	—	—	(6,686)
	(3,141)	(3,419)	(9,968)
Common stock purchased	14,989	12,296	27,886
Balance, end of year	135,791	123,943	115,066

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Fiscal Year

The company's fiscal year ends the Saturday closest to January 31. Fiscal years 1998, 1997, and 1996 ended on January 30, 1999, January 31, 1998, and February 1, 1997, respectively. References to years in this annual report relate to fiscal years rather than calendar years.

Basis of Reporting

The consolidated financial statements include the accounts of The May Department Stores Company, a Delaware corporation, and all wholly owned subsidiaries (May or the company). The company's 393 quality department stores are operated by eight regional department store companies across the United States under 11 long-standing and widely recognized trade names. The company aggregates its eight store companies into one reportable segment. The consolidated financial statements reflect Payless ShoeSource, Inc. (Payless), as a discontinued operation through May 4, 1996. All the notes, except "Discontinued Operation" on page 31, reflect data on a continuing operations basis.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates.

Net Retail Sales and Revenues

Net retail sales (sales) represent sales of stores operating at the end of the latest period, and exclude finance charge revenues and the sales of stores that have been closed and not replaced. Sales include sales of merchandise and services, and sales from leased and licensed departments. Sales are net of returns and exclude sales tax. Store-for-store sales represent sales of those stores open during both years. Revenues include finance charge revenues and all sales from all stores operating during the period.

Cost of Sales

Cost of sales includes the cost of merchandise sold and the company's buying and occupancy costs.

Advertising Costs

Advertising and sales promotion costs are expensed at the time the advertising takes place.

Preopening Expenses

Preopening expenses of new stores are expensed as incurred.

Income Taxes

Income taxes are accounted for by the liability method. The liability method applies statutory tax rates in effect at the date of the balance sheet to differences between the book basis and the tax basis of assets and liabilities.

Earnings per Share

In 1997, the company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," for all periods presented. References to earnings per share relate to diluted earnings per share.

Common Stock Split

All share and per share data included in this annual report have been restated to reflect a three-for-two common stock split effective March 22, 1999.

Stock-based Compensation

The company accounts for stock-based compensation by applying APB Opinion No. 25, as allowed under SFAS No. 123, "Accounting for Stock-based Compensation."

Cash Equivalents

Cash equivalents consist primarily of commercial paper with maturities of less than three months. Cash equivalents are stated at cost, which approximates fair value.

Accounts Receivable

In accordance with industry practice, installments on deferred-payment accounts receivable maturing in more than one year have been included in current assets.

Merchandise Inventories

Merchandise inventories are valued by the retail method and are stated on the LIFO (last-in, first-out) cost basis, which is lower than market.

Property and Equipment

Property and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives. Investments in properties under capital leases and leasehold improvements are amortized over their useful lives or related lease terms, whichever is shorter. In 1998, the company adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which did not have a significant impact on the company.

Goodwill

Goodwill represents the excess of cost over the fair value, at the dates of acquisition, of net tangible assets acquired. Substantially all amounts are amortized using the straight-line method over a 40-year period.

Long-lived Assets

Long-lived assets and certain identifiable intangibles, to be held and used or disposed of, are reviewed to determine whether the carrying amount of the asset is recoverable. Impairment losses resulting from these reviews have not been significant.

Financial Derivatives

Financial derivatives are used only to reduce risk in specific business transactions. The company periodically purchased forward contracts on firm commitments to minimize the risk of foreign currency fluctuations. These contracts were not significant.

Reclassifications

Certain prior-period amounts have been reclassified to conform with the current-year presentation.

Notes to Consolidated Financial Statements (continued)

Quarterly Results (Unaudited)

Quarterly results are determined in accordance with annual accounting policies. They include certain items based upon estimates for the entire year. Summarized quarterly results for the last two years were as follows:

(dollars in millions, except per share)	1998 Quarter				1998
	First	Second	Third	Fourth	Year
Revenues	\$2,817	\$2,889	\$3,089	\$4,618	\$13,413
Cost of sales	1,983	2,019	2,180	3,042	9,224
Selling, general, and administrative expenses	584	587	625	720	2,516
Pretax earnings	183	218	215	779	1,395
Net earnings	110	131	130	478	849
Basic earnings per share	\$ 0.30	\$ 0.37	\$ 0.36	\$ 1.40	\$ 2.43
Diluted earnings per share	0.29	0.35	0.35	1.31	2.30

(dollars in millions, except per share)	1997 Quarter				1997
	First	Second	Third	Fourth	Year
Revenues	\$2,675	\$2,749	\$2,969	\$4,292	\$12,685
Cost of sales	1,881	1,921	2,097	2,833	8,732
Selling, general, and administrative expenses	555	559	599	662	2,375
Pretax earnings	163	193	199	724	1,279
Net earnings	98	116	120	445	779
Basic earnings per share	\$ 0.26	\$ 0.32	\$ 0.34	\$ 1.26	\$ 2.18
Diluted earnings per share	0.26	0.31	0.32	1.18	2.07

There are variables and uncertainties in the factors used to estimate the annual LIFO provision (credit) on an interim basis. The following unaudited supplementary information shows what the pro forma diluted per share impact of LIFO would have been had the final variables and factors been known at the beginning of each year:

Quarter	1998		1997	
	Pro Forma	As Reported	Pro Forma	As Reported
First	\$(0.01)	\$ 0.01	\$ 0.00	\$ 0.01
Second	(0.01)	0.01	0.00	0.01
Third	(0.01)	0.01	0.00	0.01
Fourth	(0.02)	(0.08)	(0.01)	(0.04)
Year	\$(0.05)	\$(0.05)	\$(0.01)	\$(0.01)

Profit Sharing

The company has a qualified profit-sharing plan that covers associates who work 1,000 hours or more in a year and have attained age 21. The plan is a defined-contribution program that provides for discretionary matching allocations at a variable matching rate generally based upon changes in the company's annual earnings per share, as defined in the plan. The plan's matching allocation value totaled \$57 million for 1998, which represents a record effective match rate of 113%. The matching allocation value was \$48 million and \$43 million in 1997 and 1996, respectively.

The plan includes an Employee Stock Ownership Plan (ESOP) under which the plan borrowed \$400 million in 1989, guaranteed by the company, at an average rate of 8.5%. The proceeds were used to purchase \$400 million (788,955 shares) of convertible preference stock of the company (ESOP preference shares). Each share is convertible into 33.787 shares of common stock and has a stated value of \$15.01 per common share equivalent. The annual dividend rate on the ESOP preference shares is 7.5%.

The \$317 million outstanding portion of the guaranteed ESOP debt is reflected on the consolidated balance sheet as long-term debt because the company will fund the required debt service through 2004. The company's contributions to the ESOP, along with the dividends on the ESOP preference shares, are used to repay the loan principal and interest. Interest expense associated with the ESOP debt was \$27 million in 1998, \$29 million in 1997, and \$31 million in 1996. ESOP preference shares' dividends were \$25 million in 1998, and \$26 million in 1997 and 1996.

The release of ESOP preference shares is based upon debt-service payments. Upon release, the shares are allocated to participating associates' accounts. Unearned compensation, initially an equal, offsetting amount to the \$400 million guaranteed ESOP debt, has been adjusted for the difference between the expense related to the ESOP and cash payments to the ESOP. It is reduced as principal is repaid.

The company's profit-sharing expense was \$28 million, \$24 million, and \$22 million in 1998, 1997, and 1996, respectively.

At January 30, 1999, the plan beneficially owned 15.6 million shares of the company's common stock and 100% of the company's ESOP preference shares. These holdings represent 10.5% of the company's common stock.

Pension and Other Postretirement Benefits

The company has two qualified defined-benefit plans that cover associates who work 1,000 hours or more in a year and have attained age 21. The company also maintains two nonqualified, supplementary defined-benefit plans for certain associates. All plans are noncontributory and provide benefits based upon years of service and pay during employment.

Pension expense is based on information provided by an outside actuarial firm, which uses assumptions to estimate the total benefits ultimately payable to associates, then allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually.

The accumulated benefit obligations (ABO), change in projected benefit obligations (PBO), change in net plan assets, and funded status of the benefit plans are summarized in the tables below:

(dollars in millions)	Qualified Plans (funded)		Nonqualified Plans (unfunded)	
	1998	1997	1998	1997
Change in PBO: ⁽¹⁾				
PBO at beginning of year	\$476	\$383	\$ 102	\$ 90
Service cost	30	25	3	3
Interest cost	32	28	8	6
Business combinations	8	—	—	—
Actuarial loss ⁽²⁾	24	71	14	7
Benefits paid	(53)	(31)	(5)	(4)
PBO at end of year	\$517	\$476	\$ 122	\$ 102
ABO at end of year ⁽³⁾	\$464	\$433	\$ 99	\$ 86
Change in net plan assets:				
Fair value of net plan assets at beginning of year	\$490	\$409	\$ —	\$ —
Actual return on plan assets	89	89	—	—
Employer contribution	44	23	—	—
Business combinations	9	—	—	—
Benefits paid	(53)	(31)	—	—
Fair value of net plan assets at end of year	\$579	\$490	\$ —	\$ —
Funded status:				
Plan assets in excess of (less than) PBO	\$ 62	\$ 14	\$(122)	\$(102)
Unrecognized net actuarial loss (gain)	(50)	(20)	21	10
Unrecognized prior service cost	2	3	14	14
Additional minimum liability ⁽⁴⁾	—	—	(12)	—
Prepaid (accrued) benefit cost	\$ 14	\$ (3)	\$ (99)	\$ (78)
Plan assets in excess of (less than) ABO	\$115	\$ 57	\$ (99)	\$ (86)

The components of net periodic benefit costs and actuarial assumptions for the benefit plans are summarized in the following tables:

(dollars in millions)	1998	1997	1996
Components of pension expense (all plans):			
Service cost	\$ 33	\$ 28	\$ 27
Interest on PBO	40	34	24
Expected return on assets	(34)	(30)	(20)
Net amortization ⁽⁵⁾	3	2	—
Total	\$ 42	\$ 34	\$ 31

	January 1,		
	1999	1998	1997
Actuarial assumptions:			
Discount rate	6.75%	7.00%	7.50%
Expected return on plan assets	7.00	7.25	7.75
Salary increase	4.25	4.50	4.50

Definition of terms:

- (1) PBO is the actuarial present value of benefits attributed by the benefit formula to prior associate service; it takes into consideration future salary increases.
- (2) Actuarial loss is the change in value of the benefit obligations or the plan assets resulting from changes in actuarial assumptions or from experience different than assumed.
- (3) ABO is the actuarial present value of benefits (both vested and nonvested) attributed by the pension benefit formula to prior associate service based on current and past compensation levels.
- (4) The additional minimum liability represents the excess of the accumulated benefit obligation over the accrued pension costs recognized. Recognizing the additional minimum liability results in an intangible asset being recorded for an equal amount.
- (5) Prior service cost is amortized over the remaining service period.

The accrued pension costs are included in other liabilities. Prepaid pension costs and intangible assets are included in other assets.

The company also provides postretirement life and/or health benefits for certain associates. As of January 30, 1999, the company's estimated PBO (using a discount rate of 6.75%) for postretirement benefits was \$48 million, of which \$45 million was accrued in other liabilities. As of January 31, 1998, the company's estimated PBO (using a discount rate of 7.0%) for postretirement benefits was \$44 million, of which \$42 million was accrued in other liabilities. An unrecognized net loss of less than 10% of PBO need not be amortized. The postretirement plan is unfunded. The postretirement benefit expense was \$4 million in 1998, and \$3 million in 1997 and 1996.

The estimated future obligations for postretirement medical benefits are based upon assumed annual healthcare cost increases of 10% for 1999, decreasing by 1% annually to 6% for 2003 and future years. A 1% increase or decrease in the assumed annual health care cost increases would increase or decrease the present value of estimated future obligations for postretirement benefits by approximately \$1 million.

Another important element in the retirement programs is the federal Social Security system, into which the company paid \$155 million in 1998 as its matching contribution to the \$155 million paid in by associates.

Taxes

The provision for income taxes and the related percent of pretax earnings for the last three years were as follows:

(dollars in millions)	1998		1997		1996	
	\$	%	\$	%	\$	%
Federal	\$420		\$359		\$344	
State and local	77		65		69	
Current taxes	497	35.6%	424	33.2%	413	33.6%
Federal	41		64		58	
State and local	8		12		12	
Deferred taxes	49	3.5	76	5.9	70	5.7
Total	\$546	39.1%	\$500	39.1%	\$483	39.3%

The reconciliation between the statutory federal income tax rate and the effective income tax rate for the last three years follows:

	1998	1997	1996
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes	6.1	6.0	6.6
Federal tax benefit of state and local income taxes	(2.2)	(2.1)	(2.3)
Other, net	0.2	0.2	—
Effective income tax rate	39.1%	39.1%	39.3%

Notes to Consolidated Financial Statements (continued)

Major components of deferred tax assets (liabilities) were as follows:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Accrued expenses and reserves	\$ 102	\$ 144
Deferred and other compensation	123	116
Depreciation/amortization and basis differences	(474)	(460)
Other deferred income tax liabilities, net	(206)	(224)
Net deferred income taxes	(455)	(424)
Less: Net current deferred income tax assets	27	25
Noncurrent deferred income taxes	\$ (482)	\$ (449)

Net current deferred income tax assets are included in other current assets in the accompanying balance sheet.

Earnings per Share

The following tables reconcile net earnings and weighted average shares outstanding to amounts used to calculate basic and diluted earnings per share for 1998, 1997, and 1996.

	1998		
(in millions, except per share)	Net Earnings	Shares	Earnings per Share
Net earnings	\$849		
ESOP preference shares' dividends	(18)		
Basic earnings per share	831	342.6	\$2.43
ESOP preference shares	15	22.2	
Assumed exercise of options (treasury stock method)	—	2.6	
Diluted earnings per share	\$846	367.4	\$2.30

	1997		
(dollars in millions, except per share)	Net Earnings	Shares	Earnings per Share
Net earnings	\$779		
ESOP preference shares' dividends	(18)		
Basic earnings per share	761	348.5	\$2.18
ESOP preference shares	14	22.9	
Assumed exercise of options (treasury stock method)	—	2.2	
Diluted earnings per share	\$775	373.6	\$2.07

	1996		
(dollars in millions, except per share)	Net Earnings	Shares	Earnings per Share
Net earnings	\$749		
ESOP preference shares' dividends	(18)		
Basic earnings per share	731	370.8	\$1.97
ESOP preference shares	13	23.1	
Assumed exercise of options (treasury stock method)	—	2.3	
Diluted earnings per share	\$744	396.2	\$1.87

Accounts Receivable

During 1998, credit sales under department store credit programs were \$5.8 billion, or 43.6% of 1998 revenues; this compares with 45.6% in 1997 and 50.0% in 1996. An estimated 27 million customers hold credit cards under the company's various credit programs. Sales made through third-party credit cards totaled \$4.1 billion in 1998, compared with \$3.6 billion in 1997 and \$3.0 billion in 1996.

Net accounts receivable consisted of:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Customer accounts receivable	\$2,127	\$2,167
Other accounts receivable	99	93
Total accounts receivable	2,226	2,260
Allowance for uncollectible accounts	(82)	(96)
Accounts receivable, net	\$2,144	\$2,164

The fair value of customer accounts receivable approximates their carrying values at January 30, 1999, and January 31, 1998, due to the short-term nature of these accounts.

Other Current Assets

In addition to net current deferred income tax assets, other current assets consisted of prepaid expenses and supply inventories of \$49 million and \$57 million in 1998 and 1997, respectively.

Other Assets

Other assets consisted of:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Deferred debt expense	\$ 33	\$30
Notes receivable	30	29
Prepaid and intangible pension asset	26	—
Other	11	17
Total	\$100	\$76

Accrued Expenses

Accrued expenses consisted of:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Insurance costs	\$179	\$164
Salaries, wages, and employee benefits	127	112
Sales, use, and other taxes	107	97
Interest and rent expense	96	92
Advertising and other operating expenses	79	65
Construction costs	51	34
Store closings and real estate-related expenses	45	38
Other	71	38
Total	\$755	\$640

Short-term Debt and Lines of Credit

Short-term borrowings for the last three years were:

(dollars in millions)	1998	1997	1996
Balance outstanding at year end	—	—	—
Average balance outstanding	\$195	\$182	\$ 35
Average interest rate on average balance	5.4%	5.7%	5.7%
Maximum balance outstanding	\$621	\$487	\$178

The average balance of short-term borrowings outstanding, primarily commercial paper, and the respective weighted average interest rates are based on the number of days such short-term borrowings were outstanding during the year. The company has \$767 million available under credit agreements, including a minority-owned bank facility.

Long-term Debt

Long-term debt and capital lease obligations were:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
5.7% to 10.75% unsecured notes and sinking-fund debentures due 1999–2036	\$3,741	\$3,630
3.0% to 10.0% mortgage notes and bonds due 2000–2012	59	62
Debt	3,800	3,692
Capital lease obligations	123	53
Total debt and capital lease obligations	3,923	3,745
Less current maturities	98	233
Total long-term	\$3,825	\$3,512

The company recorded an extraordinary aftertax loss of \$4 million (\$5 million pretax) in 1997 and \$5 million (\$8 million pretax) in 1996 related to the early retirement of debt.

The annual maturities of long-term debt, including sinking fund requirements, are \$98 million, \$260 million, \$86 million, \$270 million, and \$134 million for 1999 through 2003.

The net book value of property and equipment encumbered under long-term debt agreements was \$114 million at January 30, 1999.

The fair value of long-term debt (excluding capital lease obligations) was approximately \$4.5 billion and \$4.2 billion at January 30, 1999, and January 31, 1998, respectively. The fair value was determined using borrowing rates for debt instruments with similar terms and maturities.

Lease Obligations

The company owns approximately 75% of its stores. Rental expense for the company's operating leases consisted of:

(dollars in millions)	1998	1997	1996
Minimum rentals	\$49	\$47	\$45
Contingent rentals based on sales	18	17	17
Real property rentals	67	64	62
Equipment rentals	3	4	4
Total	\$70	\$68	\$66

Future minimum lease payments at January 30, 1999, were as follows:

(dollars in millions)	Capital Leases	Operating Leases	Total
1999	\$ 14	\$ 46	\$ 60
2000	13	41	54
2001	13	37	50
2002	13	35	48
2003	13	31	44
After 2003	189	241	430
Minimum lease payments	\$255	\$431	\$686
Less imputed interest component	132		
Present value of net minimum lease payments of which \$3 million is included in current liabilities	\$123		

The present value of operating leases was \$256 million at January 30, 1999.

Property under capital leases, including property under capital leases described in the "Acquisitions" footnote (page 31), is summarized as follows:

(dollars in millions)	Jan. 30, 1999	Jan. 31, 1998
Cost	\$131	\$ 62
Accumulated amortization	(32)	(33)
Total	\$ 99	\$ 29

Notes to Consolidated Financial Statements (continued)

Other Liabilities

In addition to accrued pension and postretirement costs, other liabilities consisted principally of deferred compensation liabilities of \$161 million at January 30, 1999, and \$154 million at January 31, 1998. Under the company's deferred compensation plan, eligible associates may elect to defer part of their compensation each year into cash and/or stock unit alternatives. The company issues shares to settle obligations with participants who defer in stock units, and it maintains shares in treasury sufficient to settle all outstanding stock unit obligations.

Preference Stock

The company is authorized to issue up to 25,000,000 shares of \$.50 par value preference stock. As of January 30, 1999, 800,000 ESOP preference shares were authorized and 645,320 were outstanding.

The ESOP preference shares are shown separately outside of shareowners' equity in the consolidated balance sheet because the shares are redeemable by the holder or by the company in certain situations.

Common Stock Repurchase Programs

During 1998, 1997, and 1996, the company repurchased \$500 million, \$300 million, and \$600 million of May common stock (12.5 million shares, 9.6 million shares, and 19.1 million shares, respectively) in the open market.

On February 10, 1999, the board of directors authorized the company to repurchase up to an additional \$500 million of May shares as market conditions allow.

Stock Option and Stock-related Plans

Under the company's common stock option plans, options are granted at the market price on the date of grant. Options to purchase may extend for up to 10 years, may be exercised in installments only after stated intervals of time, and are conditional upon continued active employment with the company. The options may be exercised during certain periods following retirement, disability, or death.

A summary of the status of the various stock option plans at the end of 1998 and 1997 and of the changes within years is presented below:

(shares in thousands)	1998			1997		
	Shares	Exercise Price Range	Average Exercise Price	Shares	Exercise Price Range	Average Exercise Price
Outstanding at beginning of year	10,230	\$ 7-36	\$28	10,081	\$ 7-33	\$25
Granted	4,230	36-43	43	3,158	32-36	32
Exercised	(1,922)	7-36	25	(2,384)	7-32	21
Forfeited or expired	(774)	16-43	33	(625)	12-36	28
Outstanding at end of year	11,764	\$ 7-43	\$33	10,230	\$ 7-36	\$28
Exercisable at end of year	3,719	\$ 7-36	\$26	3,214	\$ 7-33	\$24
Shares available for additional grants	9,832			13,287		
Fair value of options granted			\$12			\$11

The following table summarizes information about stock options outstanding at January 30, 1999:

Options Outstanding			Options Exercisable		
Exercise Price Range	Number Outstanding at Jan. 30 (in thousands)	Average Remaining Contractual Life	Average Exercise Price	Number Exercisable at Jan. 30 (in thousands)	Average Exercise Life
\$ 7	2	2	\$ 7	2	2
16-24	2,143	5	22	1,740	5
25-36	5,853	8	30	1,977	8
40-43	3,766	9	—	—	—
	11,764	8	26	3,719	6

Under the 1994 Stock Incentive Plan, the company is authorized to grant a maximum of 2.9 million shares of restricted stock to management associates. No monetary consideration is paid by associates who receive restricted stock. Restricted stock can be granted with or without performance restrictions. All restrictions lapse over periods of up to 10 years, as determined at the date of the grant. In 1998 and 1997, the company granted 328,356 and 184,548 shares of restricted stock, respectively, under the 1994 Stock Incentive Plan.

The company's plans are accounted for as provided by APB Opinion No. 25. For stock options, no compensation cost has been recognized because the option exercise price is fixed at the market price on the date of grant. For restricted stock grants, compensation expense is based upon the grant date market price; it is recorded over the lapsing period. For performance-based restricted stock, compensation expense is recorded over the performance period based on estimates of performance levels.

As an alternative to accounting for stock-based compensation under APB No. 25, SFAS No. 123, "Accounting for Stock-based Compensation," establishes a fair-value method of accounting for employee stock options or similar equity instruments. The company used the Black-Scholes option pricing model to estimate the grant date fair value of its 1995 and later option grants. The fair value is recognized over the option vesting period. As the fair value represents only 1995 and later option grants, the pro forma impact shown below may not be representative of future years. Had compensation cost for these plans been determined in accordance with SFAS No. 123, the company's net earnings and net earnings per share would have been as follows:

(dollars in millions, except per share)	1998	1997	1996
Net earnings from continuing operations:			
As reported	\$ 849	\$ 779	\$ 749
Pro forma	833	766	740
Basic EPS from continuing operations:			
As reported	\$2.43	\$2.18	\$1.97
Pro forma	2.38	2.14	1.95
Diluted EPS from continuing operations:			
As reported	\$2.30	\$2.07	\$1.87
Pro forma	2.27	2.04	1.85

The following Black-Scholes assumptions were used in the calculations above:

	1998	1997	1996
Risk-free interest rate	5.6%	6.6%	6.8%
Expected dividend yield	\$0.85	\$0.80	\$0.77
Expected option life (years)	7	7	7
Expected volatility	23%	24%	25%

Shareowner Rights Plan

The company has a shareowner rights plan under which a right is attached to each share of the company's common stock. The rights become exercisable only under certain circumstances involving actual or potential acquisitions of the company's common stock by a person or by affiliated persons. Depending upon the circumstances, if the rights become exercisable, the holder may be entitled to purchase units of the company's preference stock, shares of the company's common stock, or shares of common stock of the acquiring person. The rights will remain in existence until August 31, 2004, unless they are terminated, extended, exercised, or redeemed.

Acquisitions

In September 1998, May purchased 11 former Mercantile stores for approximately \$302 million, including merchandise inventories. Nine of these stores are leased under a long-term capital lease. The lease has both put and call options that, if exercised, would result in the company buying the underlying properties for approximately \$100 million.

In July 1996, the company purchased 13 former Strawbridge & Clothier department stores in the greater Philadelphia area. The company delivered 4.5 million shares of May common stock and assumed \$255 million of debt and certain other liabilities in exchange for the Strawbridge & Clothier department store assets.

These acquisitions have been accounted for as purchases and did not have a material effect on the results of operations or financial position.

Discontinued Operation

The company spun off Payless effective May 4, 1996, as a tax-free distribution to shareowners. The company's financial statements reflect Payless as a discontinued operation.

Payless revenues were \$601 million in 1996. The reported net earnings from the discontinued operation were net of \$16 million in income tax expense for 1996.

Eleven-year Financial Summary

(in millions, except per share and operating statistics)

	1998	1997	1996
Net retail sales	\$13,072	\$12,291	\$11,492
Total percent increase	6.4%	7.0%	10.8%
Store-for-store percent increase	3.5%	3.6%	4.3%
Operations			
Revenues	\$13,413	\$12,685	\$12,000
Cost of sales	9,224	8,732	8,226
Selling, general, and administrative expenses	2,516	2,375	2,265
Interest expense, net	278	299	277
Earnings before income taxes	1,395	1,279	1,232
Provision for income taxes	546	500	483
Net earnings ⁽¹⁾	849	779	749
Percent of revenues	6.3%	6.1%	6.2%
LIFO charge (credit)	\$ (28)	\$ (5)	\$ (20)
Per share			
Net earnings ⁽¹⁾	\$ 2.30	\$ 2.07	\$ 1.87
Dividends paid ⁽²⁾	.85	.80	.77
Book value	11.46	10.99	10.27
Market price – high	47.25	38.08	34.83
Market price – low	33.17	29.08	27.00
Market price – year-end close	40.25	35.04	29.67
Financial statistics			
Return on equity	22.2%	21.2%	19.4%
Return on net assets	19.8	18.5	18.8
Operating Statistics			
Stores open at year-end	393	369	365
Gross retail square footage (in millions)	66.7	62.8	62.1
Sales per square foot ⁽³⁾	\$ 209	\$ 204	\$ 201
Cash flow and financial position			
Cash flow from operations ⁽⁴⁾	\$ 1,288	\$ 1,191	\$ 1,123
Percent of revenues	9.6%	9.4%	9.3%
Depreciation and amortization	\$ 439	\$ 412	\$ 374
Capital expenditures	630	496	632
Dividends on common stock	290	279	287
Working capital	2,928	3,012	3,156
Long-term debt and preference stock	4,152	3,849	4,196
Shareowners' equity	3,836	3,809	3,650
Total assets	10,533	9,930	10,059
Average shares outstanding and equivalents			
Diluted	367.4	373.6	396.2

All years included 52 weeks, except 1995 and 1989, which included 53 weeks. Net retail sales for 1995 and 1989 are shown on a 52-week basis for comparability.

⁽¹⁾ Represents net earnings and diluted earnings per share from continuing operations.

⁽²⁾ The annual dividend was increased to \$.89 per share effective with the March 15, 1999, dividend payment.

⁽³⁾ Sales per square foot are calculated from revenues and average gross retail square footage.

⁽⁴⁾ Cash flow from operations represents net earnings plus depreciation/amortization. It is different from cash flow from operating activities as shown on the statement of cash flows.

* Pretax earnings include a net special and nonrecurring charge of \$187 million, and the provision for income taxes includes a nonrecurring tax benefit of \$187 million.

** Based on pretax earnings before special and nonrecurring items.

1995	1994	1993	1992	1991	1990	1989	1988
\$10,374	\$ 9,666	\$8,921	\$8,304	\$7,755	\$7,386	\$6,917	\$6,072
7.3%	8.4%	7.4%	7.1%	5.0%	6.8%	13.9%	30.6%
2.5%	5.4%	5.4%	4.5%	(0.6%)	0.6%	6.4%	5.5%
\$10,952	\$10,107	\$9,562	\$9,362	\$9,068	\$8,700	\$8,356	\$7,742
7,461	6,879	6,537	6,459	6,275	6,047	5,734	5,348
2,081	1,916	1,824	1,859	1,861	1,772	1,735	1,645
250	233	244	279	315	278	231	196
1,160	1,079	957	579*	617	603	656	553
460	429	379	107*	213	199	231	191
700	650	578	472	404	404	425	362
6.4%	6.4%	6.0%	5.0%	4.5%	4.6%	5.1%	4.7%
\$ (53)	\$ (46)	\$ 7	\$ 10	\$ 26	\$ 39	\$ (22)	\$ (3)
\$ 1.75	\$ 1.62	\$ 1.43	\$ 1.18	\$ 1.02	\$ 1.01	\$ 1.00	\$.82
.74	.67	.60	.55	.54	.51	.46	.42
12.28	11.10	9.77	8.55	7.51	6.69	6.22	7.17
30.83	30.08	31.00	24.83	20.13	19.71	17.54	13.33
22.33	21.50	22.29	17.33	15.08	12.46	11.54	9.58
29.25	23.42	26.50	23.46	18.29	15.17	15.25	12.50
20.8%	21.3%	22.1%	21.5%	20.7%	21.8%	18.0%	18.6%
20.1	20.1	19.0	15.4 **	14.5	15.8	16.9	16.2
346	314	301	303	318	324	288	297
57.6	52.0	49.4	49.5	51.9	52.4	48.4	50.0
\$ 201	\$ 200	\$ 191	\$ 179	\$ 171	\$ 172	\$ 168	\$ 158
\$ 1,033	\$ 947	\$ 859	\$ 755	\$ 677	\$ 657	\$ 659	\$ 599
9.4%	9.4%	9.0%	8.1%	7.5%	7.6%	7.9%	7.7%
\$ 333	\$ 297	\$ 281	\$ 283	\$ 273	\$ 253	\$ 234	\$ 236
801	682	560	284	366	466	470	292
277	251	223	204	198	191	186	184
3,536	3,069	2,960	2,730	3,089	2,672	2,094	2,123
3,701	3,240	3,192	3,256	4,299	3,948	3,387	2,384
4,585	4,135	3,639	3,181	2,781	2,467	2,319	3,050
10,122	9,237	8,614	8,376	8,566	8,083	7,570	7,374
397.3	397.3	398.2	397.0	394.3	397.1	419.3	442.2

Reports of Management and Audit Committee

Report of Management

Management is responsible for the preparation, integrity, and objectivity of the financial information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts. Although the financial statements reflect all available information and management's judgment and estimates of current conditions and circumstances, prepared with the assistance of specialists within and outside the company, actual results could differ from those estimates.

Management has established and maintains an internal control structure to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that the accounting records provide a reliable basis for the preparation of financial statements, and that such financial statements are not misstated due to material fraud or error. Internal controls include the careful selection of associates, the proper segregation of duties, and the communication and application of formal policies and procedures that are consistent with high standards of accounting and administrative practices. An important element of this structure is a comprehensive internal audit program. Management continually reviews, modifies, and improves its systems of accounting and controls in response to changes

in business conditions and operations, and in response to recommendations in the reports prepared by the independent public accountants and internal auditors.

Management believes that it is essential for the company to conduct its business affairs in accordance with the highest ethical standards and in conformity with the law. This standard is described in the company's policies on business conduct, which are publicized throughout the company.

Report of Audit Committee

The Board of Directors, through the activities of its audit committee, participates in the reporting of financial information by the company. The committee meets regularly with management, the internal auditors, and the independent public accountants. The committee met three times during 1998. It reviewed the scope, timing, and fees for the annual audit and the results of audit examinations completed by the internal auditors and independent public accountants. The audit results included recommendations to improve certain internal controls and the follow-up reports prepared by management. The independent public accountants and internal auditors have free access to the committee and the Board of Directors. They attend each meeting of the committee. The audit committee reports the results of its activities to the Board of Directors.

Members of the audit committee are Russell E. Palmer (chairman), Marsha J. Evans, Helene L. Kaplan, James M. Kilts, Edward H. Meyer, Michael R. Quinlan, William P. Stirtz, Robert D. Storey, and Murray L. Weidenbaum.

Report of Independent Public Accountants

To the Board of Directors and Shareowners of The May Department Stores Company:

We have audited the accompanying consolidated balance sheet of The May Department Stores Company (a Delaware corporation) and subsidiaries as of January 30, 1999, and January 31, 1998, and the related consolidated statements of earnings, shareowners' equity and cash flows for each of the three fiscal years in the period ended January 30, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The May Department Stores Company and subsidiaries as of January 30, 1999, and January 31, 1998, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

1010 Market Street
St. Louis, Missouri 63101-2089
February 10, 1999

Board of Directors

- ¹ Audit Committee
- ² Executive Committee
- ³ Executive Compensation and Development Committee
- ⁴ Finance Committee
- ⁵ Nominating Committee
- * Committee Chairman



Edward E. Whitacre, Jr. ^{3, 4, 5}
Chairman and Chief Executive Officer
SBC Communications, Inc.

James M. Kilts ¹
President and Chief Executive Officer
Nabisco Inc.

Edward H. Meyer ^{1, 2, 3*}
Chairman of the Board, President and Chief Executive Officer
Grey Advertising Inc.

Marsha J. Evans ^{1, 4}
National Executive Director
Girl Scouts of the U.S.A.

Eugene S. Kahn ^{2*}
President and Chief Executive Officer
The May Department Stores Company



Russell E. Palmer ^{1,* 2, 3}
Chairman and Chief Executive Officer
The Palmer Group

R. Dean Wolfe
Executive Vice President, Acquisitions and Real Estate
The May Department Stores Company

William D. Perez ⁵
President and Chief Executive Officer
S.C. Johnson and Son, Inc.

Robert D. Storey ^{1, 4, 5}
Partner in Thompson Hine & Flory LLP

William P. Stirtz ^{1, 2, 4, 5*}
Chairman of the Board, Chief Executive Officer and President
Agribands International, Inc.

Jerome T. Loeb ^{2, 4}
Chairman of the Board
The May Department Stores Company



Anthony J. Torcasio
Vice Chairman, The May Department Stores Company
Chief Executive Officer, May Merchandising Company

Helene L. Kaplan ^{1, 2, 4,* 5}
Of Counsel, Skadden, Arps, Slate, Meagher & Flom LLP

Murray L. Weidenbaum ^{1, 4}
Chairman of the Center for the Study of American Business
and Mallinckrodt Distinguished University Professor
Washington University

Michael R. Quinlan ^{1, 3, 4}
Chairman of the Board
McDonald's Corporation

John L. Dunham ⁴
Executive Vice President and Chief Financial Officer
The May Department Stores Company

Company Management

Lord & Taylor

Marshall Hilsberg
Chairman and
Chief Executive Officer

Don R. Clarke
President

Hecht's

Irwin Zazulia
President and
Chief Executive Officer

Thomas D. Fingleton
Chairman

Foley's

Thomas J. Hogan
President and
Chief Executive Officer

Kenneth L. Wilkerson
Chairman

Fred J. Dilorio
Vice Chairman

Robinsons-May

David P. Mullen
President and
Chief Executive Officer

Robert M. Soroka
Chairman

Filene's

Judith K. Hofer
President and
Chief Executive Officer

J. Kent McHose
Chairman

Kaufmann's

Richard W. Bennet III
President and
Chief Executive Officer

Clarence O. Reynolds
Chairman

Famous-Barr

Harold S. Brooks
President and
Chief Executive Officer

John F. Danahy
Chairman

Meier & Frank

Richard A. Maloney
President and
Chief Executive Officer

Brian L. Keck
Chairman

May Merchandising Company

Anthony J. Torcasio
Chief Executive Officer

William P. McNamara
President

James A. Hageman
Chairman

May Design and Construction Company

Richard Tao
President

Thomas M. Rauch, Jr.
Chairman

May Realty

Bruce D. Johnston
President

Corporate Management

Eugene S. Kahn
President and
Chief Executive Officer

Jerome T. Loeb
Chairman of the Board

Anthony J. Torcasio
Vice Chairman

Executive Vice Presidents

John L. Dunham
Chief Financial Officer

R. Dean Wolfe
Acquisitions and
Real Estate

Senior Vice Presidents

Alan E. Charlson
Chief Counsel

William D. Edkins
Strategic Planning

Douglas J. Giles
Human Resources

James F. Harner
Customer Service and
Operations

Lonny J. Jay
Planning and Reporting

Jan R. Kniffen
Treasurer

Mary F. Morgan
Store Administration

Joel G. Rebmann
Credit

Henry A. Wagner
Data Processing

Vice Presidents

Donald N. Baxter
Compensation and Benefits

Steven A. Bedard
Training

Gabriela E. Bohn
Corporate Purchasing

Richard A. Brickson
Secretary and Senior Counsel

Sally A. Bronco
Executive Development

Joseph A. Civitillo
Broadcast Advertising

Richard A. Cohen
Public Affairs

Robert G. Cole
Systems Development

Joseph J. Consolo
Visual Merchandising and
Store Design

Michael G. Culhane
Accounting and Reporting

Martin M. Doerr
Taxes

William M. Goddard
Risk Management and
Insurance

Laurence M. Hellman
Merchandise Research

Stephen J. Hinderberger
Planning and Analysis

Thomas H. Lucas
Corporate Development

Tim D. Meyer
Capital Planning and Analysis

Daniel J. Mollerus
MIS and Vendor Development

Michael S. Morand
Store Administration

Barbara J. Murray
Consumer Research

Robert W. Noeth
Loss Prevention and
Shortage Control

Timothy W. Plunkett
Executive Recruiting

Steven M. Riley
Human Resources
Administration – Stores

Jayne A. Sikya
Human Resources

Barry S. Silver
Audit

Kenard E. Smith
Area Research

Rhonda K. West
Corporate Communications

Shareowner Information

Corporate Headquarters

The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799
(314) 342-6300

1999 Annual Meeting

The Annual Meeting of Shareowners will be held at 10 a.m., Friday, May 21, at America's Center, Washington at Eighth Street, St. Louis, Mo.

Information Requests

Copies of the company's annual report to shareowners, the Form 10-K annual report to the Securities and Exchange Commission, the Form 10-Q quarterly reports to the SEC, and quarterly earnings releases are available free of charge to shareowners upon request:

Corporate Communications
The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799

Recent press releases are also available at our Internet address: <http://www.maycompany.com> or by calling (314) 444-6869 to obtain copies by fax.

A summary of charitable contributions made by The May Department Stores Company Foundation and the company's Statement of Corporate Responsibility are available upon request from the mailing address above. The Statement of Corporate Responsibility includes our policies on affirmative action and equal employment opportunity, minority-owned and woman-owned suppliers, sexual harassment, and vendor standards of conduct.

Common Stock

Shares of The May Department Stores Company common stock are listed and traded on the New York Stock Exchange under the symbol MAY. The stock is quoted as "MayDS" in daily newspapers.

Shareowner Inquiries

For assistance concerning dividend payments and shareowner records, please contact our transfer agent and registrar, The Bank of New York:

Telephone inquiries:
(800) 524-4458

E-mail inquiries:
Shareowner-svcs@Email.bankofny.com

Written inquiries:
P.O. Box 11258
Church Street Station
New York, N.Y. 10286-1258

Certificate transfers and address changes:
P.O. Box 11002
Church Street Station
New York, N.Y. 10286-1002

Security analysts, investment professionals, and shareowners may direct their inquiries to:

Mr. Jan R. Kniffen
Senior Vice President and Treasurer
The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799
(314) 342-6413

Dividend Reinvestment

Dividends on May common stock may be reinvested economically and conveniently through participation in the Dividend Reinvestment Plan. Participating shareowners may also make optional cash purchases of May common stock. Additional information may be obtained from the plan administrator:

The Bank of New York
P.O. Box 11260
Church Street Station
New York, N.Y. 10277-1260
(800) 524-4458

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Stores Company**
611 Olive Street
St. Louis, Mo. 63101-1799
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